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071728Z Jun 05

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	E-00	FAAE-00	UTED-00	FOE-00	VC-00	FRB-00	TEDE-00
	INR-00	LAB-01	L-00	VCE-00	AC-00	NRC-00	NSAE-00
	NSCE-00	OES-00	OIG-00	OMB-00	NIMA-00	EPAU-00	MCC-00
	GIWI-00	ACE-00	SP-00	STR-00	FMP-00	BBG-00	EPAE-00
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INFO ECOWAS COLLECTIVE
CIA WASHDC
DEPT OF AGRICULTURE WASHDC 0077
DEPT OF TREASURY WASHDC
MILLENNIUM CHALLENGE CORP
USDOC WASHDC 0435

UNCLAS ACCRA 001134

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SUBJECT: GHANA ECONOMIC HIGHLIGHTS, MAY 2005

1. (U) This report covers noteworthy economic events and activities in Ghana for May 2005. The issues covered are:

- GoG Moves Forward on MCA Program Development
- Ghana Hosts G8/NEPAD Summit on Agriculture
- GoG/donors discuss new Poverty Reduction Strategy
- Local Poultry Producers Sue Government
- GOG Reaches Agreement with Telecom Malaysia
- Economic Indicators Update: Inflation Declines, Central Bank Cuts Prime Rate, Smaller Cocoa Crop

GOG Moves Forward on MCA Program Development

2. (SBU) A team from the Millennium Challenge Corporation (MCC) visited Ghana in May to examine and advance Ghana's Millennium Challenge Account (MCA) program design and to begin discussions on a MCA compact. During a three-day offsite, MCC officials and the GoG's core MCA team (established in April with a budget of \$500,000) agreed on a work plan for completing Ghana's compact. Ghana's proposed MCA project is for approximately \$290 million and has four components supporting agri-business development: infrastructure; financial services; business services; and policy reforms. The program targets three regions, selected for their agricultural growth potential and because they are among the poorest areas of Ghana.

3. (SBU) Although Ghana got off to a slow start with its MCA planning, MCC, USAID, and State combined to persuade President Kufuor to become more actively involved and recommit the GoG to accelerating the MCA Compact process. Ghana is gaining momentum now: the two sides are currently in the program development phase of the process, and the goal is to sign a compact by the fourth quarter of 2005. (Note: The MCC has approved 609(g) funding for Ghana to assist the development of the Compact. The funds will support an irrigation system feasibility study as well as the collection of household baseline data in the targeted regions. End Note). Once the proposed program is complete, the MCC will conduct formal due diligence, followed by negotiations. The MCC will then submit the agreed upon Compact to the MCC Investment Committee for approval, after which it will go to the MCC Board and then Congress.

Ghana Hosts G8/NEPAD Summit on Agriculture

4. (U) The GoG hosted the G8/New Partnership for African Development (NEPAD) Summit on the Comprehensive Africa Agriculture Development Program (CAADP) May 5-6. The Summit coalesced agriculture development programs that were drafted at separate regional summits by various African governments, NGOs, donors, and private sector parties. The successful combination of the regional plans ensured that the comprehensive CAADP would be on the agenda for the G8 meeting at Gleneagles, Scotland (July 6-8). USAID worked with the NEPAD Secretariat in South Africa and the local Ghana organizing committee, chaired by the Office of the President, to help develop the CAADP agenda, provide logistical support and sponsorship for many of the African regional organizations who attended the Ghana conference. USAID Deputy Administrator for Africa, Lloyd Pierson, and USAID

Assistant Administrator for Policy, Doug Menarchik, jointly led the USG delegation to the summit.

GoG/donors discuss new Poverty Reduction Strategy

15. (SBU) Finance Minister Baah-Wiredu and World Bank Country Director Mats Karlsson hosted a "mini-consultative group" meeting May 31 for Development Partners (DPs) to discuss the Growth and Poverty Reduction Strategy (GPRS II) for 2006-2009. The current Ghana Poverty Reduction Strategy expires 2005. "Growth" will replace "Ghana" in the GPRS to emphasize that the key to poverty reduction is economic growth. The GoG plans to finalize the GPRSII by June 30. It is vetting the draft GPRSII with stakeholders, after which it will present it to Cabinet and Parliament. The World Bank urged DPs to respond to the GPRSII by drafting a Joint Assistance Strategy (by September 2005). The World Bank proposed that the GoG host a Consultative Group meeting in mid to late October 2005.

16. (SBU) GPRSII's goals are to decrease poverty and accelerate growth to ensure Ghana becomes a middle income (\$1,000 GDP/capita) country by 2015. GPRSII assumes population growth below 2.6%, fiscal discipline; sub-10% price inflation, and a stable exchange rate. The four pillars of GPRSII are: 1) growth through the private sector;

2) human resource development; 3) good governance; and 4) addressing the needs of the vulnerable and excluded.

17. SBU) DPs urged the GoG to prioritize the elements of GPRSII, focus on the private sector, develop the vulnerable and excluded pillar, which was weak in the first GPRS, and address corruption and much needed public sector reform. DPs noted that the GoG should incorporate the completed (but not yet disseminated) NEPAD African Peer Review into the GPRSII, and should develop a monitoring and evaluation system to track results.

Local Poultry Producers Sue Government

18. (SBU) Ghana's poultry farmers have sued the Attorney General and Speaker of Parliament for neglecting to impose an increase in tariffs on imported poultry, claiming they have endured intense competition from foreign imports. In 2003, Parliament passed a bill to raise the tariff on finished imported poultry from 20% to 40% to protect the domestic industry. However, Ghana's farmers claim the Customs, Excise and Preventative Service (CEPS) suspended implementation of the new bill, leaving tariffs at 20%. (Comment: the GoG abandoned the new bill under pressure from the IMF and other donors. According to local importers, including of U.S. poultry products, the GoG has instead controlled the volume of imports by limiting import permits. Ghana's Director of Veterinary Services, charged with evaluating import permits, has even admitted to controlling the volume of poultry imports to protect domestic producers from foreign competition. End Comment).

GOG Reaches Agreement with Telecom Malaysia

19. (U) The GoG has reached an agreement with Telecom Malaysia (MTB) to buy MTB's 30% stake in Ghana Telecom (GT). In exchange, MTB will drop its arbitration case against the GoG, ignited in 2001 when the GoG used its 70% stake in GT to oust MTB's management team. The GoG will also return \$50 million that MTB paid for an additional 18% stake it never received. KPMG will value MTB's GT stock at current market value. The transaction will leave the GoG as the sole shareholder in GT.

Economic Indicators Update

10. (U) Inflation Falls Marginally: the 12-month inflation rate fell slightly from 16.7% in March to 16.6% in April, due to lower food and non-food prices in April. Inflation jumped up from 11.6% in January to 16.7% in March after a 50% hike in the price of petroleum products in February. The Bank of Ghana (BoG) states that the spike in inflation was driven solely by the fuel price increase. BoG officials believe the April numbers confirm the shock was a one-off effect and that prices are returning to their normal trend path. However, future petroleum price increases may still be necessary, which could jeopardize the GoG's 2005 inflation target of 13.5%.

11. (U) Central Bank Cuts Prime Rate: The BoG reduced its prime rate from 18.5% to 16.5% on May 30, basing its decision on continuing strong economic fundamentals. The cedi depreciated against the dollar by only 0.6% in March 2005 compared with 4.8% in March 2004 reserve money increased by 24.8% in March 2005 versus 35.3% in March 2004, and money supply increased by 23.9% in March 2005 compared with 39.7% in March 2004.

12. (SBU) 2005 Cocoa Production to Decline by 23%: The volume of cocoa produced is expected to fall from 735,000

metric tons to 600,000. BoG Governor Paul Acquah attributes the fall to changes in the harvesting cycle and the late flowering of cocoa trees. Market analysts, however, believe that a crackdown on smuggled cocoa beans from Cote D'Ivoire could also be a factor. Smuggled Cote D'Ivoire beans reduced the quality of Ghana's cocoa bean exports in 2004. This led to over 10 arbitration cases against the Ghana Cocoa Marketing Company. GoG authorities are now trying to preserve the quality of the cocoa beans, and thus are seeking to curb smuggling. The significant reduction in the production volume may make it difficult for the GoG to hit its growth target of 5.8% for 2005, since cocoa is the largest contributor to economic growth (comprising 17% of 2004's 5.8% GDP growth).

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